



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CARTER COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CARTER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Carter County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$4,534,409 from the prior fiscal year, resulting in a cash surplus of \$6,661,688 as of June 30, 2001. Revenues increased by \$9,583,167 from the prior year and disbursements increased by \$5,683,893.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$6,105,000. Future collections of \$12,341,401 are needed over the next 32 years to pay all bonded debt principal and interest.

Report Comments:

- The Fiscal Court Should Obtain Properly Approved Budget Amendments From The Department For Local Government
- The Fiscal Court Should Properly Account For The Detention Facility Project
- The Fiscal Court Should Adopt An Investment Policy
- The Fiscal Court Should Maintain A Schedule Of Federal Financial Assistance

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Alice Joy Binion, Carter County Judge/Executive

Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Carter County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Carter County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Carter County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Carter County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

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In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2001, on our consideration of Carter County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Obtain Properly Approved Budget Amendments From The Department For Local Government
- The Fiscal Court Should Properly Account For The Detention Facility Project
- The Fiscal Court Should Adopt An Investment Policy
- The Fiscal Court Should Maintain A Schedule Of Federal Financial Assistance

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Carter County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
September 11, 2001

CARTER COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Alice Joy Binion	County Judge/Executive
Oral L. Carper	Magistrate
Jack C. Dinkens	Magistrate
Lonnie E. Sturgill	Magistrate
William M. Webb	Magistrate
Carlos R. Wells	Magistrate

Other Elected Officials:

Michael B. Fox	County Attorney
Randall K. Binion	Jailer
Hugh R. McDavid	County Clerk
Larry Thompson	Circuit Court Clerk
Kevin McDavid	Sheriff
Charles Kiser	Property Valuation Administrator
George A. Sparks	Coroner

Appointed Personnel:

Glenna J. Wallace	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

Assets and Other Resources

General Fund Type

Cash	\$	536,712	
Road and Bridge Fund:			
Cash		138,734	
Jail Fund:			
Cash		426,981	
Local Government Economic Assistance Fund:			
Cash		438,855	
Enhanced 911 Fund:			
Cash		108,026	
1979 Kentucky Residential Mortgage			
Revenue Bond Defeasance Fund:			
Cash		61,597	
Governor's Surplus Spending Fund:			
Cash		10,744	
Health Insurance Account - Cash		1,242	\$ 1,722,891

Community Development Block Grant Fund:			
Cash	\$	2	
Forestry Fund:			
Cash		9,995	9,997

Detention Facility Project Fund:		
Construction Account - Cash	\$ 4,399,015	
Construction Account - Investments	531,027	4,930,042

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Assets and Other Resources (Continued)

Other Resources

General Fund Type

Road Fund:

Amounts to be Provided in Future Years for Road Equipment Lease Purchase Agreement (Note 5)	\$ 104,718
------------------------------------------------------------------------------------------------	------------

Capital Projects Fund Type

Detention Facility Project Fund:

Amounts to be Provided in Future Years for Bond Payments	<u>1,174,958</u>
----------------------------------------------------------	------------------

Total Assets and Other Resources	<u><u>\$ 7,942,606</u></u>
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Liabilities and Fund Balances

Liabilities

General Fund Types

Health Insurance Account	\$ 1,242
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General Fund:

Road Equipment Lease Purchase Agreement (Note 5)	104,718
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Capital Projects Fund Types

Detention Facility Project Fund:

Detention Facility Bonds Not Matured (Note 4)	6,105,000
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The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Reserved:

General Fund Type

Local Government Economic Assistance Fund	\$	438,855	
Enhanced 911 Fund		108,026	
1979 Kentucky Residential Mortgage			
Revenue Bond Defeasance Fund		61,597	
Governor's Surplus Spending Fund		<u>10,744</u>	\$ 619,222

Special Revenue Fund Type

Community Development Block Grant Fund	\$	2	
Forestry Fund		<u>9,995</u>	9,997

Unreserved:

General Fund Type

General Fund	\$	536,712	
Road and Bridge Fund		138,734	
Jail Fund		<u>426,981</u>	<u>1,102,427</u>

Total Liabilities and Fund Balances			<u><u>\$ 7,942,606</u></u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

CARTER COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	<u>General Fund Types</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,182,026	\$ 1,599,484	\$ 1,049,528	\$ 135,934
Bond Proceeds	5,982,900			
Transfers In	1,622,634	400,000	36,634	650,000
Total Cash Receipts	<u>\$ 13,787,560</u>	<u>\$ 1,999,484</u>	<u>\$ 1,086,162</u>	<u>\$ 785,934</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,278,538	\$ 988,646	\$ 1,187,714	\$ 826,989
Schedule of Unbudgeted Expenditures	1,351,979			
Transfers Out	1,622,634	1,222,634		
Total Cash Disbursements	<u>\$ 9,253,151</u>	<u>\$ 2,211,280</u>	<u>\$ 1,187,714</u>	<u>\$ 826,989</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 4,534,409	\$ (211,796)	\$ (101,552)	\$ (41,055)
Cash Balance - July 1, 2000	<u>2,127,279</u>	<u>748,508</u>	<u>240,286</u>	<u>468,036</u>
Cash Balance - June 30, 2001*	<u>\$ 6,661,688</u>	<u>\$ 536,712</u>	<u>\$ 138,734</u>	<u>\$ 426,981</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Types				Special Revenue Fund Types	
Local Government Economic Assistance Fund	Enhanced 911 Fund	1979 Kentucky Residential Mortgage Revenue Bond Defeasance Fund	Governor's Surplus Spending Fund	Community Development Block Grant Fund	Forestry Fund
\$ 202,557	\$ 205,748	\$ 1,515	\$ 8,281	\$ 2,947,978	\$ 4,982
536,000					
\$ 738,557	\$ 205,748	\$ 1,515	\$ 8,281	\$ 2,947,978	\$ 4,982
\$ 345,404	\$ 179,018	\$	\$ 400,000	\$ 2,342,107 673,185	\$ 3,456
\$ 345,404	\$ 179,018	\$	\$ 400,000	\$ 3,015,292	\$ 3,456
\$ 393,153	\$ 26,730	\$ 1,515	\$ (391,719)	\$ (67,314)	\$ 1,526
45,702	81,296	60,082	402,463	67,316	8,469
\$ 438,855	\$ 108,026	\$ 61,597	\$ 10,744	\$ 2	\$ 9,995

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	Special Revenue Fund Type	Capital Projects Fund Type
	Local Law Enforcement Block Grant Fund	Detention Facility Project Fund
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 83	\$ 25,936
Bond Proceeds		5,982,900
Transfers In		
Total Cash Receipts	<u>\$ 83</u>	<u>\$ 6,008,836</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,204	\$
Schedule of Unbudgeted Expenditures		678,794
Transfers Out		400,000
Total Cash Disbursements	<u>\$ 5,204</u>	<u>\$ 1,078,794</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (5,121)	\$ 4,930,042
Cash Balance - July 1, 2000	<u>5,121</u>	<u>0</u>
Cash Balance - June 30, 2001*	<u><u>\$</u></u>	<u><u>\$ 4,930,042</u></u>

* Cash Balance Includes Investments

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Carter County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Carter County Justice Center Corporation as part of the reporting entity.

The Carter County Justice Center Corporation (the Corporation) is a legally separate entity established to provide long-term debt service to the Fiscal Court for the construction of a justice center facility. A majority of the Corporation's governing body is appointed by the Carter County Judge/Executive. Further, the Carter County Fiscal Court can significantly influence the Corporation's operations. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court. The Corporation had no financial activity during fiscal year ended June 30, 2001. Since there are no financial transactions to disclose, only note disclosure will be made during this fiscal year.

Additional - Carter County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Carter County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Carter County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Carter County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Enhanced 911 Fund, 1979 Kentucky Residential Mortgage Revenue Bond Defeasance Fund, and the Governor's Surplus Spending Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Community Development Block Grant Fund, Forestry Fund, and the Local Law Enforcement Block Grant Fund are reported as Special Revenue Fund Types.

3) Capital Projects Fund Type

Capital Project Funds Type accounts for financial resources to be used for acquisition of major capital facilities. The Detention Facility Project Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Carter County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Carter County Fiscal Court: Ambulance Service.

G. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

On May 1, 2001, the Carter County Fiscal Court issued \$6,105,000 of General Obligation Improvement bonds for financing the construction of the Carter County Detention Facility. The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commence on November 1, 2001, and the principal payments commence on May 1, 2003. As of June 30, 2001, the principal amount outstanding is \$6,105,000. Bond payments for the remaining years are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001-2002	\$ 297,222	\$ 0
2002-2003	297,222	65,000
2003-2004	294,818	75,000
2004-2005	292,043	85,000
2005-2006	288,812	105,000
Through 2032	<u>4,766,284</u>	<u>5,775,000</u>
Totals	<u>\$ 6,236,401</u>	<u>\$ 6,105,000</u>

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

<u>Description</u>	<u>Monthly Payment</u>	<u>Term of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance 06/30/2001</u>
Road Equipment #1	\$ 1,094	60 Months	01/01/2002	\$ 2,173
Road Equipment #2	\$ 3,598	48 Months	01/01/2005	\$ 102,545

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

CARTER COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,198,536	\$ 1,599,484	\$ 400,948
Road and Bridge Fund	992,900	1,049,528	56,628
Jail Fund	331,215	135,934	(195,281)
Local Government Economic Assistance Fund	117,300	202,557	85,257
Enhanced 911 Fund	200,200	205,748	5,548
1979 Kentucky Residential Mortgage Revenue Bond Defeasance Fund	177	1,515	1,338
Governor's Surplus Spending Fund	300,000	8,281	(291,719)
<u>Special Revenue Fund Type</u>			
Community Development Block Grant Fund	3,480,000	2,947,978	(532,022)
Forestry Fund	2,834	4,982	2,148
Law Enforcement Grant Fund	5,116	83	(5,033)
Totals	<u>\$ 6,628,278</u>	<u>\$ 6,156,090</u>	<u>\$ (472,188)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,628,278
Add: Budgeted Prior Year Surplus			<u>1,728,751</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 8,357,029</u>

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SCHEDULE OF OPERATING REVENUE

CARTER COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type
Taxes	\$ 1,223,098	\$ 1,218,116	\$ 4,982	\$
In Lieu Tax Payments	7,583	7,583		
Excess Fees	114,747	114,747		
License and Permits	27,877	27,877		
Intergovernmental Revenues	4,582,967	1,636,790	2,946,177	
Charges for Services	79,200	79,200		
Miscellaneous Revenues	74,409	74,409		
Interest Earned	72,145	44,326	1,883	25,936
Total Operating Revenue	<u>\$ 6,182,026</u>	<u>\$ 3,203,048</u>	<u>\$ 2,953,042</u>	<u>\$ 25,936</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

CARTER COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 851,020	\$ 756,274	\$ 94,746
Protection to Persons and Property	766,145	707,526	58,619
General Health and Sanitation	125,100	103,527	21,573
Social Services	500		500
Roads	1,159,356	1,119,362	39,994
Debt Service	79,300	67,604	11,696
Capital Projects	987,102	801,820	185,282
Administration	822,958	371,658	451,300
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$ 4,791,481	\$ 3,927,771	\$ 863,710

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 74,321	\$ 74,321	\$
Protection to Persons and Property	111,227	3,456	107,771
General Health and Sanitation	1,230,000	213,740	1,016,260
Recreation and Culture	150,000	62,000	88,000
Capital Projects	2,000,000	1,997,250	2,750
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 3,565,548	\$ 2,350,767	\$ 1,214,781

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SCHEDULE OF UNBUDGETED EXPENDITURES

CARTER COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Community Development Block Grant Fund</u>	<u>Detention Facility Project Fund</u>
<u>Special Revenue Fund Type</u>		
General Health and Sanitation	\$ 673,185	
<u>Capital Projects Fund Type</u>		
Administration-		
Bond Rating Fee		\$ 7,000
Insurance		78,778
Legal Fees		17,500
Registration Fee		50,766
Trustee Fee		4,500
Miscellaneous		1,938
Capital Projects-		
Detention Facility Construction Costs		<u>518,312</u>
Totals	<u>\$ 673,185</u>	<u>\$ 678,794</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Alice Joy Binion, Carter County Judge/Executive

Members of the Carter County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Carter County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 11, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Carter County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Obtain Properly Approved Budget Amendments From The Department For Local Government
- The Fiscal Court Should Properly Account For The Detention Facility Project
- The Fiscal Court Should Adopt An Investment Policy
- The Fiscal Court Should Maintain A Schedule Of Federal Financial Assistance

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carter County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 11, 2001

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Alice Joy Binion, Carter County Judge/Executive

Members of the Carter County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Carter County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Carter County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Carter County's management. Our responsibility is to express an opinion on Carter County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carter County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Carter County's compliance with those requirements.

In our opinion, Carter County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Carter County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Carter County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 11, 2001

FINDINGS AND QUESTIONED COSTS

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Carter County.
2. No reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report.
3. Four instances of noncompliance material to the financial statements of Carter County were disclosed during the audit.
4. No reportable conditions disclosed during the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Carter County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Carter County are reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant, CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Carter County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

1. The Fiscal Court Should Obtain Properly Approved Budget Amendments From The Department For Local Government

The County received a letter from the Department for Local Government increasing the grant agreement for the Rattlesnake Ridge Water Expansion Project by \$780,000. This was a grant agreement amendment only and not an actual budget amendment. However, the Fiscal Court included this grant agreement amendment as a budget amendment. This caused the Fiscal Court to have unbudgeted expenditures in the CDBG Fund in the amount of \$673,185. In the future, the fiscal court should obtain a properly approved budget amendment from the DLG before amending the budget.

County Judge/Executive's Response:

Department for Local Government's letter of February 27, 2001 was confusing. We thought they were approving a budget amendment.

CARTER COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Fiscal Year Ended June 30, 2001
 (Continued)

NONCOMPLIANCES (Continued)

2. The Fiscal Court Should Properly Account For The Detention Facility Project

The Detention Facility Project is currently not budgeted or included on Carter County's financial statements. The fiscal court also did not approve all of the expenditures of the Detention Facility Project accounts. Another concern is that the checks contain only one signature, the County Judge/Executive's. Since the capital project's construction is currently ongoing, and many more expenditures are anticipated, we highly recommend the fiscal court budget for the Detention Facility Project receipts and expenditures in the Jail Fund or in a separate fund. The fiscal court should approve all payments and each check should contain dual signatures.

County Judge/Executive's Response:

We will comply with dual signatures and amend the budget.

3. The Fiscal Court Should Adopt An Investment Policy

The fiscal court does not have an investment policy. KRS 66.480 requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. We recommend the fiscal court adopt a written investment policy per KRS 66.480.

County Judge/Executive's Response:

Okay.

4. The Fiscal Court Should Maintain A Schedule Of Federal Financial Assistance

The fiscal court did not maintain a Schedule of Federal Financial Assistance. The fiscal court is required to prepare and maintain a Schedule of Federal Financial Assistance. This schedule should be started at the beginning of the fiscal year and updated each time there are grant expenditures. The Schedule of Federal Financial Assistance is used to determine if the fiscal court is required to have a Single Audit and should contain the following information:

Name of Federal Program

CFDA #

Pass-Through Grantor's Number if applicable or Grant Number

Expenditures for Fiscal Year

County Judge/Executive's Response:

Okay.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
 AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CARTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of Housing and Urban Development</u>		
 Passed-Through State Department of Local Government:		
Community Development Block Grant (CFDA #14.228)		
Carter-Elliott Counties Water Treatment Plant Project	B-98-DC-21-0001(009)	\$ 1,997,250
Rattlesnake Ridge Water Expansion Project	B-99-DC-21-0001(064)	<u>673,185</u>
 Total U.S. Department of Housing and Urban Development		 \$ 2,670,435
 <u>U.S. Department of Justice</u>		
 Passed-Through State Justice Cabinet:		
Local Law Enforcement Block Grant (CFDA #16.596)	LLEB-211-1/99	4,604
 <u>U. S. Federal Emergency Management Agency</u>		
 Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	N/A	<u>6,180</u>
 Total Cash Expenditures of Federal Awards		 <u><u>\$ 2,681,219</u></u>

CARTER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

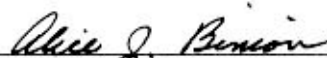
CARTER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CARTER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Carter County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer